

# Chief Executive's introduction

This Review demonstrates how success in business and progress on the environment and communities go hand in hand.

## Our year

### An introduction by Terry Leahy, our Chief Executive

We face many challenges in this first decade of the 21st century. We must tackle climate change and other environmental priorities. We must learn how we can better sustain communities and build new relationships that meet changing social needs. We must tackle poverty and help families on low incomes. We must develop our people so that they are fulfilled at work and are equipped to compete and thrive in a global marketplace.

There is a growing belief that business has an enormous role to play in tackling these and other challenges. I am excited by this task, and believe fundamentally that it is by being successful that businesses can make the biggest contribution. It is efficient businesses that can invest in deprived areas from which other companies have retreated. It is successful businesses that understand the needs of their customers – including low-income customers and those with specific needs. It is growing businesses that can bring the hope that comes when new jobs and careers replace poverty and unemployment. And it is strong businesses that will prove that the challenge of climate change will be met through innovation and growth.

Tesco now operates in 13 countries and over 30 million people shop with us each week. We have a team of over 440,000 people around the world. Thousands of companies supply us with goods, each of which will have employees whose lives we affect.

This Review is therefore about our role as a successful and responsible business. We report on our impact on the environment, the people who work for us, the communities of which we are a part, and our relationship with our customers around the world.

Our Community Plan – our programme to put social and environmental issues at the heart of our business – is growing in strength in each of the countries in which we operate. Whether on climate change or on healthy living, on waste reduction or community engagement, our Community Plan establishes our ambitions, our goals and our actions for achieving them.

One of our biggest challenges is climate change.

I have always been clear that sustainable consumption must not mean an end to growth. Growth is achieved through dynamism, energy and ingenuity and we need each of these qualities in the fight against climate change, and in particular the challenge of consuming while protecting the environment – creating a low-carbon economy and society.

So our climate change strategy has three priorities. First, we are setting an example by reducing our own carbon footprint. We have a target to halve emissions from our buildings by 2020, and we have robust plans in place throughout the business to achieve it. The direct emissions of the Tesco business are 4.47 million tonnes of CO<sub>2</sub>e. This has increased over the past year, largely because we have continued to expand into new countries and within the UK. But we have reduced our carbon intensity, the amount of carbon used per square foot, by 4.7%.

Second, we are empowering customers to make environmental choices by making the green alternative affordable, and by providing the information on which to make an informed choice. By halving the price of energy-saving light bulbs we have quadrupled their sales. And, with the Carbon Trust, we have begun the task of developing a universally accepted and commonly understood measure of the carbon footprint of our products. Customers can now begin to compare emissions as easily as they can compare price or nutritional profile.

Third, we are using our resources and relationships to work with others to achieve the low-carbon economy of the future. We have created a £100 million Sustainable Technology Fund to support large-scale carbon reduction technologies at our stores and distribution centres and in our supply chain. We have created a new Sustainable Consumption Institute at the University of Manchester, pledging to make all its findings freely and publicly available.

Terry Leahy with staff at our Cheshunt Extra store in Hertfordshire, UK.



# Every Little Helps



On our broader environmental impacts, we have worked with our customers in the UK to save over one billion plastic bags over the past year. Through our Green Clubcard scheme, we have learned that people respond best to incentives, and that the key to achieving sustainable behaviour change lies not in penalising and restricting people, but in empowering them by making their lives better and easier.

Launching Fresh & Easy in the US was a major highlight this year and demonstrated our determination to make a difference on climate change wherever we operate. This is the first time we have entered a new market by starting from scratch, and sustainability has been integral from the beginning. Fresh & Easy is a pilot member of the Leadership in Energy and Environmental Design (LEED) Volume Certification Program which encourages energy-efficient building. New Fresh & Easy stores use natural light, better insulation, bike racks for employees and customers, and in-store recycling. Fresh & Easy also helps customers make sustainable choices, for example by only selling energy-efficient light bulbs.

Tackling climate change is our biggest challenge, but there are many others: ensuring our suppliers work to high ethical standards; making sure that our customers can buy healthy and nutritious food, sourced locally where they want it; being a good neighbour and a good employer in the communities we serve; and reducing the broader environmental impacts of our own business and those of our suppliers.

The impact we have on our suppliers and those who work for them is an ever more important issue as we increase the number of products we buy from around the world.

We source from many different countries so that we can offer customers the best possible value, quality and range. Conditions in some parts of the world are difficult, but I firmly believe that international trade can help by creating jobs and lifting people out of poverty. We choose suppliers that are willing and able to meet our strict standards, and use a comprehensive programme of monitoring, training and capability building to make sure they do.

In 2007, we added new measures to strengthen this programme, such as a series of unannounced factory audits in Bangladesh, China, India and Pakistan. We now require that inspections are carried out by individually named, competent auditors. Along with four other global retailers, we have formed the Global Social Compliance Programme to develop a consistent code of practice comprising the highest standards from the many codes already available.

Our customers around the world are increasingly concerned about health issues ranging from obesity, diabetes and heart disease to malnutrition, and want appropriate products and information.

We were the first UK supermarket to introduce nutritional labelling, and remain the only one to have labelled all eligible products. We are rolling this out across our business and aim to label eligible products in all countries within the next two years.

Our success depends on our people throughout the world. We have a committed, skilled workforce that reflects the communities we serve. We invest heavily in developing our people. For example, our first Chinese graduates started working in Shanghai during 2007, after training in the UK, and we are training 42 local graduates in our business in China.

Customers tell us they want fresh, local food and we have responded in the UK by opening a network of regional buying offices. This has rapidly expanded local product sales, with more than 800 new lines, and we expect local sales to more than double over the next few years. We have also focused on local sourcing in many of the other countries in which we operate, providing our customers with the products they want, and boosting local economies too.

Tesco serves thousands of communities around the world. We depend on their support and aim to play a positive role beyond our immediate contribution of meeting customer needs and providing local jobs. We listen carefully so we can understand and respond to what local people want, beginning when we plan to open a new store.

Support for education is a major part of our contribution to communities. Computers for Schools is now in its 17th year in the UK and we have used our experience to introduce similar programmes in other countries. Tesco for Schools in Poland ran for the sixth time last year and involved half the schools in the country.

This Review highlights the progress we have made over the past year and the many challenges we still face. At Tesco we have always been motivated by challenges, and this is an exciting time.

I am very confident that by working hard with our customers, our staff, and our many stakeholders around the globe, we will increasingly demonstrate that success in business and progress on the environment and in communities go hand in hand.

**Terry Leahy,**  
Chief Executive

# Achievements and challenges

We report on our progress by issue throughout the Review. Overall highlights in 2007 are included below.

## Achievements in 2007

- > We reduced our carbon intensity by 4.7% compared with 2006, which means we are on track to meet our ambitious targets to halve CO<sub>2</sub>e emissions from existing stores by 2020 (see page 9).
- > We installed 30 automated recycling units for customer use, bringing the total number installed to 45. The machines have exceeded all expectations, with over 65 million items processed in 2007 alone (see page 16).
- > We met our target to reduce carrier bag use by 25% from the 2006 level of four billion after just 36 weeks, saving over one billion bags (see page 17).
- > We increased sales of locally sourced products by 55% in the UK and 18% in Poland (see page 21).
- > We sold over 18 million litres of 'localchoice' milk, which pays farmers 28 pence a litre, the highest price in the UK (see page 22).
- > We launched an industry-leading Auditor Recognition Programme for vetting our suppliers' labour standards. All audits for Tesco must now be carried out by an approved, individually named auditor (see page 28).
- > We continued the roll-out of front-of-pack Guideline Daily Amount (GDA) labelling to own-brand products in countries including Turkey, South Korea and Poland, where 33% of products are now labelled (see page 35).
- > We improved the nutritional content of over 900 products in the UK (see page 35).
- > We supported communities in crisis, from the Dominican Republic to China, Malaysia and the UK. In total we gave over £250,000 in donations to people affected by extreme weather conditions such as hurricanes and floods (see page 39).
- > We raised a record £4.55 million for our UK charity of the year, the British Red Cross (see page 41).
- > We attracted over 1,000 interviewees for 170 jobs at our first six Fresh & Easy stores, thanks to the generous pay and benefits offered (see page 45).

## Challenges in 2007

- > Our Group distribution emissions decreased by 4.7% per case delivered against a target of 10%, making our target of a 50% decrease by 2012 more challenging (see page 10).
- > The amount of our waste that we recycled in the UK was 70%, below our target of 75%. We will improve our processes to help us meet our target of diverting 80% from landfill by 2009 (see page 15).
- > Since we introduced biofuels into our fuel for customers and in our distribution fleet in the UK, there has been an active debate about whether biofuels have a positive or negative environmental and social impact (see page 15).
- > We issued 40 warnings to suppliers for breaches of our environmental standards relating to pesticide use (see page 23).
- > On animal welfare, concerns were raised about the welfare standards of broiler chickens and those that produce standard eggs. Supermarkets, including Tesco, were challenged to stop selling them (see page 24).
- > We did not meet our target to audit labour standards at 100% of high-risk suppliers during the year. Audits took place at 73% of such suppliers, a total of 455, compared with 221 carried out in 2006 (see page 26).